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June 4, 1974

MEMORANDUM

SUBJECT: Oil Policy and the Iran-Saudi Arabia Relationship

A major feature of US policy toward the Persian Gulf region has been our strong encouragement of efforts by littoral states--especially Saudi Arabia and Iran--to cooperate in defense of their mutual security. This policy responds to the basic judgment, reaffirmed in NIE 3-1-73 (Problems in the Persian Gulf), that "the relationship of Saudi Arabia and Iran is of key importance to the Western position in the Gulf."

Former Assistant Secretary Sisco, in testimony before a subcommittee of the House Committee on Foreign Affairs, put it this way: "One of the principal US policies in the Gulf, since the British announced in 1968 their intention to end their protective treaty relationships there, has been to encourage friendly states in the area to assume increasing responsibility for collective security in the region. In the Gulf this has been shared primarily by Iran and Saudi Arabia."

The Saudis and Iranians recognize the desirability of working together and have kept each other informed on matters of mutual interest. They have in common their close ties to the West--particularly the US--and an aversion to radical Arab regimes and movements, which they see as the most immediate threat to their security. They are both highly suspicious of the USSR. They differ on some aspects of the Arab-Israel problem, but since the October War Iran has been more vocal in supporting UN Resolution 242 and has been even more circumspect than usual about its dealings with Israel.

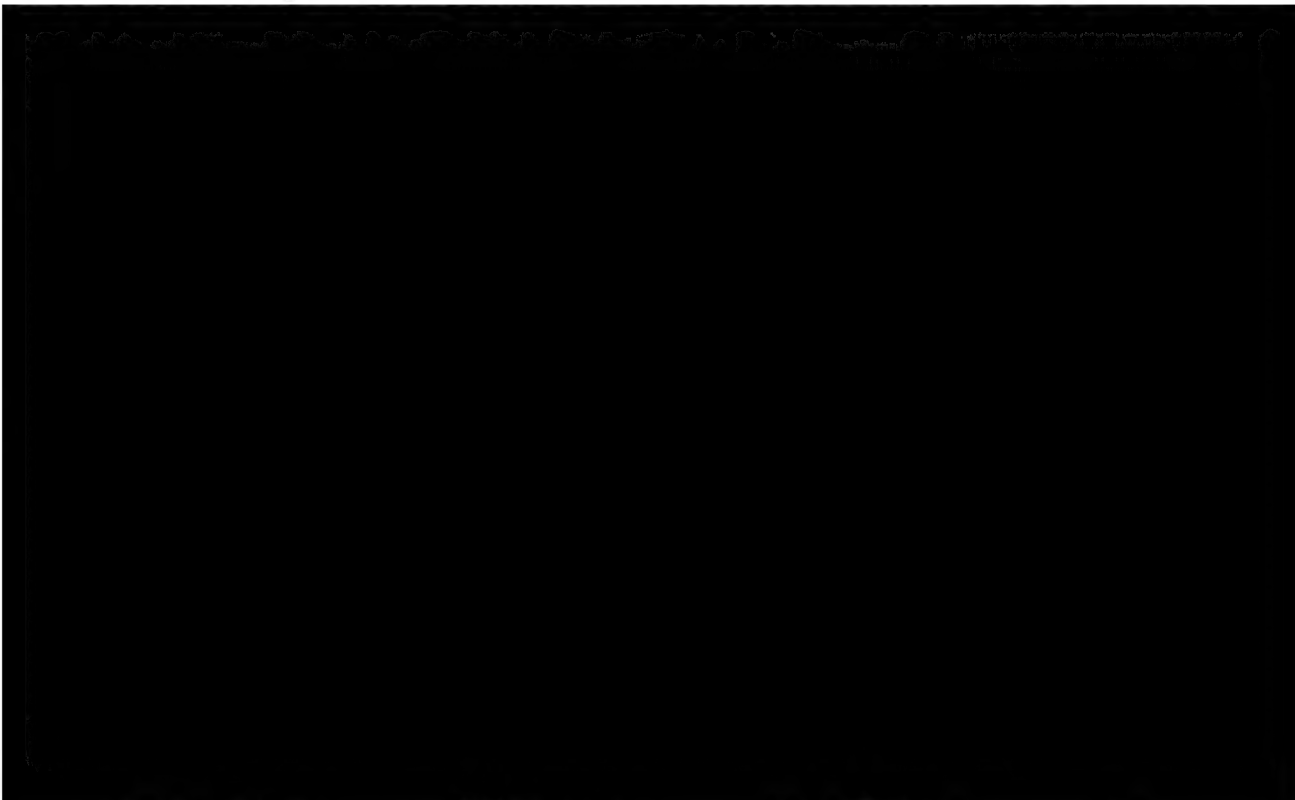
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Although lingering irritants in the relationship have precluded much genuine policy coordination, the two countries have acted in parallel on a number of occasions.



Iran and Saudi Arabia are uneasy associates, however. The rapid expansion of the Shah's armed forces causes concern among the Saudis, who know they are already badly outmatched by the Iranians and that they will never have the manpower to catch up. King Faysal questions the need for the Iranian buildup and wonders whether it might eventually be used for aggressive purposes.

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Although Faysal's probably successor, Prince Fahd, is inclined to work more closely with Iran, the incompatibilities of Iranian and Arab nationalism are deep and will not be quickly overcome. More than one diplomatic conference has ended abruptly and in disarray because the Persians and Arabs

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could not agree whether it was the "Persian" or "Arabian" Gulf that was under discussion. Linguistic and religious differences are obstacles to closer understanding.

The energy crisis, growing out of the embargo, production cuts, and price hikes, added another irritant. Almost inevitably, Iran and Saudi Arabia are impelled by their different circumstances to take sharply different positions on some of the key oil questions.

-- Iran has six times the population of Saudi Arabia. Its oil production, though lower than that of the Saudis, will deplete exploitable reserves before the end of the century. The Shah wants to maximize revenue in the near term in order to develop other resources and build an industrialized economy.

-- Saudi Arabia could not spend all its oil earnings even before the price hike. Faysal's problem is the lack of trained manpower and technical expertise, not money.

-- Faysal has been receptive to arguments that the damage done to the economies of Western and less developed countries by high oil prices is not to Saudi Arabia's long-term advantage.

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